HOSPITAL AUDIT GUIDE

DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS
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CHIEF EXAMINER

12/06

HOSPITAL AUDIT GUIDE
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I. INTRODUCTION

This manual was prepared and promulgated by the State of Alabama, Department of Examiners of Public Accounts (EPA) under the authority and responsibility provided by Act No. 205, ***Acts of Alabama 1967***, Page 569. Act No. 205 provides that certified public accountants, subject to the control of the Alabama State Board of Public Accountancy, may audit the books and records of publicly owned hospitals, nursing home, and other publicly owned medical institutions. These audits must be performed in accordance with procedures promulgated by the Chief Examiner of Public Accounts.

Specifically, this manual establishes uniform auditing and reporting standards for audits of county hospitals which fulfill requirements of the ***Code of Alabama, 1975***, § 22-21-4 and § 41-5-1 through 41-5-24. This manual also requires that audits of hospitals be made in accordance with the following:

> Generally Accepted Auditing Standards as promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA)
>
> Government Auditing Standards, issued by the Comptroller General of the United States
>
> AICPA Audit and Accounting Guides, "State and Local Governments" and "Government Auditing Standards and Circular A-133 Audits."

As additional statements and pronouncements are issued by the authoritative accounting and auditing standards setting bodies, they should be adopted and incorporated into this manual unless they are specifically excluded by the Department of Examiners of Public Accounts.

NOTE: As a general rule, Medicaid arrangements between the state and providers are contracts for services and not federal financial assistance; therefore, they would not be covered by the Single Audit Act.

If you have any questions concerning the necessary reports for a particular entity, contact the Department of Examiners of Public Accounts Coordinator of Hospital Audits.

II. EFFECTIVE DATE

The provisions of this manual are effective immediately upon issuance.

III CHIEF EXAMINER TO RECEIVE NOTIFICATION OF ENGAGEMENT AND COPY OF EXTERNAL PEER REVIEW

The auditor accepting an engagement must notify the Chief Examiner of the engagement in writing prior to beginning the audit. The scope of the audit must be shown and must include a statement, which specifically assures that tests of compliance will be performed and reporting will be in accordance with the standards shown in this manual. The Chief Examiner reserves the right to reject the engagement if the scope of the audit does not appear to be sufficient.

Government Auditing Standards (hereafter referred to as the Yellow Book), issued by the Comptroller General of the United States, states that each audit organization performing audits in accordance with GAGAS should have an appropriate internal quality control system in place and should undergo an external peer review. An audit organization seeking to enter into a contract to perform an assignment in accordance with GAGAS should provide a copy of their most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract to the Chief Examiner.

Notification can be made by sending the Chief Examiner a copy of the engagement letter, provided it includes the assurances previously discussed. The auditor should also send a copy of the most recent external peer review and any letter of comment to the Chief Examiner with the copy of the engagement letter.

IV. CONTACTS WITH THE DEPARTMENT OF EXAMINERS OF PUBLIC ACCOUNTS

The following address should be used for correspondence:

Chief Examiner of Public Accounts
Department of Examiners of Public Accounts
P. O. Box 302251
Montgomery, AL 36130-2251
Attention: Coordinator of Hospital Audits

The Department will provide technical assistance upon request. Requests may be made in writing or by telephone at (334) 242-9200. Contacts with the Chief Examiner should be made by the auditor when:

a. the auditor is engaged

b. evidence of fraud, abuse, irregularities or illegal acts is discovered

c. there is uncertainty about audit requirements

d. the auditor cannot gain access to necessary records

e. the report is completed and ready for submission to the Chief Examiner

V. AUDIT SCOPE

The scope of the audit of the financial statements must be sufficient to enable the auditor to report on the following:

a. Fairness of presentation of the financial statements as to the financial position and the results of operations in accordance with generally accepted accounting principles.

b. Compliance with applicable state and local governmental laws and regulations, as well as applicable legal opinions and interpretations (i.e., ordinances and Attorney General's opinions).

c. The internal control of the Hospital.

The audit should include all funds under the supervision and control of the Hospital as well as all component units required to be included as part of the reporting entity by the Governmental Accounting Standards Board.

VI. STANDARDS OF FIELD WORK

Audits are to be performed in conformity with generally accepted auditing standards and generally accepted government auditing standards contained in the Yellow Book that pertain to financial audits.

Procedures used during field work should be guided by ***State and Local Governments*** and ***Government Auditing Standards and Circular A-133 Audits*** issued by the AICPA and any applicable Statements of Position (SOP) issued by the AICPA. The auditor is not limited to these procedures and should use such procedures as are necessary to perform an audit of sufficient scope according to the required standards.

The Department of Examiners of Public Accounts (EPA) has adopted certain additions to the standards for field work as described for financial audits in the Yellow Book. EPA additions to the Yellow Book standards for field work are as follows:

a. Yellow Book standards require the auditor to design the audit to provide reasonable assurance of detecting material misstatements resulting from violations of provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives. The Chief Examiner of Public Accounts requires that tests of financial transactions be made to determine compliance with state and local statutes, ordinances, regulations, and Attorney General's opinions

which pertain to financial transactions **regardless of the effect on the financial statements.** The auditor should be knowledgeable about and report on the auditee's compliance with state and local statutes, ordinances, regulations, and Attorney General's opinions which pertain to the auditee's financial transactions both specifically as a hospital and generally as a public institution.

b. The Chief Examiner of Public Accounts requires that the Department of Examiners of Public Accounts, Coordinator of Hospital Audits, be consulted when legal questions arise concerning the interpretation of laws and regulations. Auditors should not release reports that involve possible noncompliance with laws and regulations without consulting first with the Department of Examiners of Public Accounts, Coordinator of Hospital Audits.

c. The Chief Examiner requires that the Department of Examiners of Public Accounts, Coordinator of Hospital Audits, be notified immediately when evidence concerning the existence of fraud, abuse, irregularities or illegal acts is uncovered. The Chief Examiner will assist in determining the nature and extent of fraud, abuse, irregularities, and illegal acts and in bringing any resulting charges against officials or employees. In addition, auditors should not release information or reports containing information on illegal acts or indications of such acts without consulting with the Coordinator of Hospital Audits.

d. If the auditor cannot obtain necessary records, the Coordinator of Hospital Audits should be notified. The Chief Examiner has statutory authority to subpoena necessary records.

VII. PROCEDURES FOR FIELD WORK

Procedures used during field work should be guided by the AICPA Audit and Accounting Guide, ***Health Care Organizations***, as well as applicable portions of the AICPA Audit and Accounting Guide ***State and Local Governments*** and ***Government Auditing Standards and Circular A-133 Audits***, and any subsequent related authoritative guides or materials. The auditor is not limited to these procedures and should use such procedures as are necessary to perform an audit of sufficient scope according to the required standards.

VIII. STANDARDS OF REPORTING

Examples of the required financial statements, reports, and schedules are contained in Appendix I. A brief discussion of each is contained on the following pages. For additional guidance, refer to GASB's ***Codification of Governmental Accounting and Financial Reporting Standards,*** Section 2200.

A ***draft*** copy of the report should be sent to the Coordinator of Hospital Audits upon completion of the audit. After review of the draft copy, the Coordinator of Hospital Audits will notify the auditor of any changes that should be made to the report before it is published. The auditor should send the final corrected copy of the report to the Coordinator of Hospital Audits. The cover letter accompanying the final report should state if the auditor has delivered copies of the report to the board of the hospital being audited

A. Financial Statements

The financial statements of the Hospital are to be presented in conformity with generally accepted accounting principles (GAAP) for special purpose governments. GAAP consists of the statements and Interpretations of the Governmental Account Standards Board (GASB), as well as American Institute of Certified Public Accountants (AICPA) and Financial Accounting

Standards Board (FASB) pronouncements specifically made applicable to state and local governmental entities by GASB Statements and Interpretations and other guidance as outlined in the ***AICPA Codification of Statements on Auditing Standards,*** AU Section 411.

The key to determining the appropriate financial reporting model for a hospital is determining whether it has governmental activities or business-type activities (BTA) or both. Governmental activities generally are financed through taxes, intergovernmental revenues, or other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services (GASB Codification 1300.109). The required financial statements for a hospital depend on whether the hospital is engaged in more than one governmental program or has both governmental and business-type activities, or is engaged only in providing business-type activities. This determination should be based on auditor judgment in consultation with the management of the hospital.

Many hospitals may choose to report as an entity engaged only in BTA. For this reason, the BTA reporting model is illustrated in Appendix I. The illustrated financial statements examples contained in Appendix I should not be interpreted as an endorsement of one method of presentation over another presentation method allowable under GAAP. A hospital may choose to report as a special-purpose government engaged in governmental activities or one engaged in both governmental and business-type activities. If other presentation methods are chosen, the reporting guidance in GASB Codification SP20.104-106 should be followed.

If the hospital reports as an entity engaged only in BTA, it should present only the financial statements required for enterprise funds. The basic financial statements and required

supplementary information (RSI) for a hospital reporting as a BTA are (See GASB Codification SP20.107):

- Management's Discussion and Analysis (MD&A)
- Enterprise fund financial statements consisting of:
    a. Statement of net assets or balance sheet
    b. Statement of revenues, expenses, and changes in fund net assets
    c. Statement of cash flows
- Notes to the financial statements
- RSI other than MD&A, if applicable

Assets and liabilities of proprietary funds should be presented in a classified format to distinguish between current and long-term assets and liabilities. Either a net assets format – assets less liabilities equal net assets – or a balance sheet format – assets equal liabilities plus net assets – may be used. The entity should also establish a policy that defines operating revenues and expenses and disclose it in the summary of significant accounting policies. (See GASB Codification P80.118)

Disclosures relating to the financial statements should be in conformity with disclosure requirements set forth by the GASB. A list of common note disclosures is included in Appendix I. For additional guidance refer to the GASB ***Codification of Governmental Accounting and Financial Reporting Standards.***

B. Required Supplementary Information (RSI)

Required Supplementary Information (RSI) is financial information that GASB standards require to be presented with, but outside of, the basic financial statements. Depending on a hospital's specific circumstances, five types of RSI may be required to be presented – 1)

Management's Discussion and Analysis (MD&A), 2) Budgetary Comparison Schedule(s), 3) Infrastructure Condition and Maintenance Data (for hospitals using the modified approach for infrastructure assets), 4) Pension Trend Data (for certain pension plans and participating employers), and 5) Revenues and Claims Development Trend Data (for public entity risk pools). The MD&A will be the most commonly applicable type of RSI for hospitals and accordingly is the only RSI discussed in this manual. If the hospital reports governmental activities and presents fund financial statements, a budgetary comparison schedule is required for the general fund and for each major special revenue fund that has a legally adopted annual budget. More detailed guidance regarding the other types of RSI can be found in the GASB Codification.

Normally, RSI is presented following the Notes to the Financial Statements. However, MD&A information is the exception and should be presented preceding the financial statements. All other applicable RSI should be presented after the Notes. Below is a brief discussion of the MD&A.

Management's Discussion and Analysis – The MD&A **should be prepared by the entity's management** and should provide an objective and easily readable analysis of the hospital's financial activities based on currently known facts, decisions or conditions. The MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The information required to be reported in the MD&A is general rather than specific in order to encourage financial managers to effectively report only the most relevant information and to avoid "boilerplate" discussion. The information presented should be confined to the items outlined in GASB Codification 2200.109.

C. Financial and Legal Compliance Audits

Auditors should follow the guidance in this manual, generally accepted auditing standards promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA), ***Government Auditing Standards*** issued by the Comptroller General of the United States, and other applicable AICPA pronouncements and Statements of Positions (SOPs). Auditors are required to perform tests of compliance in every audit of hospitals.

1. Auditee's Responsibility

a. Auditee Response – The auditee is required to prepare a response when deficiencies in internal control, fraud, illegal acts, violations of provision of contracts or grant agreements or abuse are reported by the auditor. The auditor should normally request that this response is submitted in writing, stating the responsible officials' view on the reported findings, conclusions, and recommendations, as well as management's planned corrective actions. When the audited entity's comments oppose the report's findings, conclusions, or recommendations, and are not, in the auditor's opinion, valid, or when planned corrective actions do not adequately address the auditor's recommendations, the auditors should state their reasons for disagreeing with the comments or planned corrective action.

2. Auditor's Reports

The auditor should prepare the following reports. Examples of these reports and schedules are included in Appendix I.

a. Independent Auditor's Report – an opinion or disclaimer of opinion as to whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles. (See Example in Appendix I)

b. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* – The purpose of this report is to: 1) report any reportable conditions (including material weaknesses) which are identified as a result of performing the audit of the financial statements, and 2) report occurrences of noncompliance with provision of laws, regulations, contracts and grants which could have a direct and material effect on the required financial statements. (See Example in Appendix I)

D. Additional Reporting Requirements

The Department of Examiners of Public Accounts (EPA) has adopted the following additional reporting requirements:

1. In addition to the reporting responsibilities regarding fraud, illegal acts, violations of provisions of contracts or grant agreements, other noncompliance with laws and regulations or abuse contained in the Yellow Book, the Chief Examiner of Public Accounts requires that the Department of Examiners of Public Accounts, Coordinator of Hospital Audits also be notified.
2. A Schedule of Board Members should be included. Refer to the example report in Appendix I of this manual for guidance concerning the format and content of this schedule.

IX. PROCEDURES FOR REPORTING

A. Form and Content

The overall format of the report should generally be as shown in the example report (Appendix I). As discussed previously, the format and content of the financial statements will

vary depending on the reporting model for the individual hospital. The appropriate note disclosures are a matter of professional judgment and will vary depending on the specific circumstances encountered. However, included in Appendix I are sample note disclosures which are typically applicable to governmental entities. Professional judgment, along with materiality considerations, should be used in determining which disclosures are appropriate for a fair presentation in accordance with GAAP for a particular hospital.

B. SAFE Program

Public hospitals are subject to the SAFE Act. This has an impact on the information required by generally accepted accounting principles to be disclosed in the notes to the financial statements on audits of these hospitals. Auditors performing audits of the public hospitals should be aware of the provisions so that they can determine compliance with the Act and ensure that appropriate note disclosure is made.

Public hospitals' monies that have been deposited with financial institutions or banks in accordance with the provision of the SAFE Program are considered fully insured and collateralized for GASB Statement No. 3 note disclosure purposes. Below is a brief summary of the provisions of the SAFE Program.

The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Section 41-14A-1 through 41-14A-14. All public entities covered under the SAFE Program are required to deposit their funds with banks or financial institutions that meet all the requirements of the SAFE Program and have been designated as Qualified Public Depositories (QPDs). These public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. The financial institutions (QPDs) holding deposits of public funds must pledge securities as collateral against those

deposits. In the event of failure of a financial institution, securities pledged by the financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The QPD is required to provide an annual statement as of September 30th to each public depositor that summarizes their deposit account relationship and provides balances of deposits. The public depositor is required to verify the deposit account information and notify the QPD within 60 calendar days of receipt of the statement of any inaccuracies.

The auditor should perform procedures to determine whether the provisions of the SAFE Act have been complied with and ensure that the appropriate disclosures have been made in the notes to the financial statements.

C. Special Reports

All management letters and audit reports submitted to the auditee must also be submitted to the Chief Examiner of Public Accounts along with the copies of the audit report. The management letter will become a part of the permanent file.

D. Audit Report Distribution

Reports must be forwarded to the Chief Examiner of Public Accounts, postpaid, by registered mail not later than March 31st of the year following the end of the audit period. If a time extension is needed, a request should be made in writing to the Coordinator of Hospital Audits. Reports are not considered final until formally approved and released by the Chief Examiner of Public Accounts. The auditor may issue the same basic financial statements contained in the report forwarded to the Chief Examiner to the auditee to satisfy the requirements

of other financial statement users. The auditor should submit one copy for the Chairman of the Board, one copy for each Board member (if the auditor has not furnished a copy to Board members), and 20 extra copies of the audit report to the Chief Examiner. The distribution and release of the reports forwarded to the EPA is the responsibility of the Chief Examiner.

E. Additional Statements on Auditing Standards and Accounting Pronouncements

As additional statements on auditing standards and accounting pronouncements are issued by applicable standards setting bodies (AICPA, GASB, Comptroller General of the United States, etc.), they will be adopted and incorporated into this manual unless the Chief Examiner specifically excludes them.

When new pronouncements are issued, the Department of Examiners of Public Accounts will strive to update the manual in a timely manner. However, it is the responsibility of the auditor to ensure that the financial statements are fairly presented in accordance with generally accepted accounting principles and that the audit is conducted in accordance with all applicable auditing standards.

APPENDIX I

EXAMPLE REPORT

(ILLUSTRATIVE ONLY)

CONTENTS

Independent Auditor's Report

We have audited the accompanying basic financial statements of the _____ County Hospital Board, as of and for the year ended September 30, 2XX7 and 2XX6, as listed in the table of contents as Exhibits 1 through ___. These basic financial statements are the responsibility of the Hospital Board's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of _____ County Hospital Board, as of September 30, 2XX7 and 2XX6, and its changes in financial position, including cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report dated _____ on our consideration of _____ County Hospital Board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of our audits.

The accompanying Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation

of the supplementary information. However, we did not audit the information and express no opinion on it.[1]

_____

Firm Name

DATE - (Last date of field work)

NOTE: This is an example of an unqualified report for a County Hospital Board on comparative financial statements reporting with the BTA only model.

[1] **If the entity failed to prepare an MD&A, use the following paragraph instead:**

The _____ County Hospital Board has not presented a Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

If there are material departures from the guidelines established by GASB for MD&A, use the following paragraph:

The Management's Discussion and Analysis (MD&A) on pages ____ through ____ is not a required part of the basic financial statements, and we did not audit and do not express on opinion on such information. However, we have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. As a result of such limited procedures, we believe that the MD&A is not in conformity with accounting principles generally accepted in the United States because [*describe the material departure(s) from GAAP*].

PERPETUAL COUNTY HOSPITAL BOARD
BALANCE SHEETS
SEPTEMBER 30, 2XX7 AND 2XX6
(In thousands)

	2XX7	2XX6
Assets		
Current Assets:		
Cash and cash equivalents	$ 7,136	$ 7,557
Short-term imvestments	3,142	3,423
Patient accounts receivable, net of estimated uncollectibles of $2,125 in 2XX7 and $2,040 in 2XX6	19,834	16,727
Supplies and other current assets	2,270	2,428
Total current assets	32,382	30,135
Noncurrent cash and investments:		
Internally designated for capital acquisitions	15,000	15,000
Other long-term investments	2,605	1,327
Held by trustee for debt service	1,945	2,005
Restricted by contributors and grantors for capital acquisitions and research	1,124	1,078
Principal of permanent endowments	3,003	2,919
Delinquent property taxes	385	229
Capital assets:		
Land	3,590	3,590
Depreciable capital assets, net of accumulated depreciation	39,792	39,328
Total capital assets, net of accumulated depreciation	43,382	42,918
Other assets	1,056	936
Total assets	$ 100,882	$ 96,547
Liabilities and Net Assets		
Current Liabilities:		
Current maturities of long-term debt	$ 1,250	$ 1,488
Accounts payable and accrued expenses	4,945	4,575
Estimated third-party payor settlements	1,822	1,651
Other current liabilities	1,673	1,797
Total current liabilities	9,690	9,511
Long-term debt, net of current maturities	19,672	20,412
Other long-term liabilities	3,361	2,690
Total Liabilities	32,723	32,613
Net Assets:		
Invested in capital assets, net of related debt	22,460	21,018
Restricted:		
For debt service	1,945	2,005
Expendable for capital acquisitions	733	628
Expendable for research	781	899
Expendable for specific operating activities	331	573
Nonexpendable permanent endowments	3,003	2,919
Unrestricted	38,906	35,892
Total net assets	68,159	63,934
Total liabilities and net assets	$ 100,882	$ 96,547

See accompanying Notes to the Financial Statements.

PERPETUAL COUNTY HOSPITAL BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2XX7 AND 2XX6
(In thousands)

	2XX7	2XX6
Operating revenues:		
Net patient service revenue (net of provision for bad debts of $859 in 2XX7 amd $938 om 2XX6)	$ 43,305	$ 43,736
Premium revenue	9,876	13,058
Other	3,416	3,248
Total operating revenues	56,597	60,042
Operating expenses:		
Salaries and benefits	46,845	43,235
Medical supplies and drugs	12,746	7,986
Insurance	7,030	7,382
Other supplies	10,314	11,166
Depreciation and amortization	4,065	3,638
Total Expenses	81,000	73,407
Operating income (loss)	(24,403)	(13,365)
Nonoperating revenues (expenses):		
Property taxes	23,895	15,309
Investment income	5,653	5,304
Interest expense	(1,489)	(1,552)
Noncapital grants and contributions	170	853
Other	(425)	
Total nonoperating revenues (expenses)	27,804	19,914
Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments	3,401	6,549
Capital grants and contributions	824	2560
Additions to permanent endowments		351
Increase in net assets	4,225	9,460
Net assets - beginning of the year	63,934	54,474
Net assets - end of the year	$ 68,159	$ 63,934

See accompanying Notes to the Financial Statements

PERPETUAL COUNTY HOSPITAL BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2XX7 AND 2XX6
(In thousands)

	2XX7	2XX6
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 50,074	$ 54,680
Payments to suppliers and contractors	(30,029)	(26,634)
Payments to employees	(46,955)	(43,460)
Other receipts and payments, net	4,591	3,597
Net cash provided by operating activities	(22,319)	(11,817)
Cash flows from noncapital financing activities:		
Property taxes	20,739	12,224
Noncapital grants and contributions	170	853
Contributions to permanent endowments		351
Other	(425)	
Net cash provided by noncapital financing activities	20,484	13,428
Cash flows from capital and related financing activities:		
Capital grants and contributions	824	2,560
Property taxes restricted to capital acquisitions	3,000	3,000
Principal paid on long-term debt	(1,488)	(1,896)
Interest paid on long-term debt	(1,489)	(1,552)
Purchase of capital assets	(4,019)	(4,111)
Net cash used by capital and related financing activities	(3,172)	(1,999)
Cash flows from investing activities:		
Interest and dividends on investments	2,737	2,124
Purchase of investments	(1,045)	(289)
Proceeds from sale of investments	2,327	683
Net cash provided by investing activities	4,019	2,518
Net increase (decrease) in cash and cash equivalents	(988)	2,130
Cash and cash equivalents, beginning of year	9,101	6,971
Cash and cash equivalents, end of year	$ 8,113	$ 9,101

PERPETUAL COUNTY HOSPITAL BOARD
STATEMENTS OF CASH FLOWS (continued)
FOR THE YEARS ENDED SEPTEMBER 30, 2XX7 AND 2XX6
(In thousands)

	2XX7	2XX6
Reconciliation of cash and cash equivalents to the balance sheet:		
Cash and cash equivalents in current assets	$ 7,136	$ 7,557
Restricted cash and cash equivalents	977	1,544
Total cash and cash equivalents	$ 8,113	$ 9,101
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$ (24,403)	$ (13,365)
Adjustments to reconcile operating income to net cash flows used in operating activities:		
Depreciation and amortization	4,065	3,638
Provision for bad debts	859	938
Changes in:		
Patient accounts receivable	(3,966)	(2,909)
Supplies and other current assets	158	100
Other assets	(120)	
Accounts payable, accrued expenses, and other current liabilities	246	(225)
Estimated third-party payor settlements	171	(235)
Other liabilities related to operating activities	671	241
Net cash used in operating activities	$ (22,319)	$ (11,817)

Noncash Investing, Capital, and Financing Activities:

The Board entered into capital lease obligations of $510,000 for new equipment in 2XX7.

The Board held investments at September 30, 2XX7 with a fair value of $XXX. During 2XX7, the net increase in the fair value of these investments was $XXX.

See accompanying Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS*

*NOTE: The accompanying sample notes are for illustrative purposes only and, therefore, the amounts included may not agree with the sample set of financial statements.

PERPETUAL COUNTY HOSPITAL BOARD
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2XX7 AND 2XX6

1. Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity - The Perpetual County Hospital Board (the Board) is a not-for-profit public corporation that owns and operates Perpetual Medical Center, (the Hospital) a 75 bed hospital that serves Perpetual and surrounding counties. The Perpetual County Hospital Board was originally incorporated under the provisions of ***Code of Alabama 1975***, §22-21-70 through 22-21-83. As of October 1, 19XX, the Board was designated to operate as a hospital corporation under the provisions of the ***Code of Alabama 1975***, §22-21-100 through 22-21-112.

Tax Status - As a governmental unit, the Board is exempt from federal and state income taxes

Related Organization- The Board is appointed by the Perpetual County Commission. The County, however, is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) for the Board and the Board is not considered part of the Commission's financial reporting entity. The Board is considered a related organization of the County Commission.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Enterprise Fund Accounting - The Board uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Board has elected to apply the provisions of all applicable GASB pronouncements as well as all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(If the Board decides to follow FASB statements issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements, this note should be modified accordingly.)

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Capital Assets – The Board's capital assets are reported at historical costs. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment, computers, and furniture	3 to 7 years

Costs of Borrowing – Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Board's interest cost was capitalized in either 2XX7 or 2XX6.

Property Taxes – The Board received approximately 29 percent in 2XX7 and 19 percent in 2XX6 of it financial support from property taxes. These funds were used as follows:

	2XX7	2XX6
Used to support operations	$20,895	$12,309
Levied for debt service	3,000	3,000

Property taxes are levied in February of each year based on the assessments for property as of the previous October 1. The taxes are due the following October 1 and are considered delinquent after December 31.

Grants and Contributions – From time to time, the Board receives grants from the State of Alabama as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. (Use this note only if applicable)

Endowments – Endowments are provided to the Board on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, Alabama state law permits the Board to authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note 2. (Use this note only if applicable)

Assets limited as to use – Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet at September 30, 2XX7 and 2XX6.

Restricted Resources – When the Board has both restricted and unrestricted resources available to finance a particular program; it is the Board's policy to use restricted resources before unrestricted resources.

Net Assets – Net assets of the Board are classified in the following four components:

- Invested in capital assets, net of related debt – consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowing used to finance the purchase or construction of those assets.
- Restricted expendable – consist of noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Board, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note 8.
- Restricted nonexpendable – equal the principal portion of permanent endowments.
- Unrestricted – consist of the remaining net asset that do not meet the definition of invested in capital assets net of related debt or restricted.

Operating Revenues and Expenses – The Board's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Board's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Compensated Absences – The Board's employees earn vacation days at varying rates depending on years of service. Vacation time does not accumulate. Generally, any days not used at year-end expire. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave if they leave before retirement. However, employees who retire from the Board may convert accumulated sick leave to termination payments at varying rates, depending on the employee's contract. The estimated amount of sick leave payable as termination payments is reported as a noncurrent liability in both 2XX7 and 2XX6. (This is an example of a policy. The Board's policy should be described.)

(NOTE: The Governmental Accounting Standards Board (GASB) requires the accrual of a liability for vacation leave as the benefits are earned by employees if both of the following conditions are met: 1) the employees' rights to receive compensation are

attributable to services already rendered and 2) it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement)

Risk Management – The Board is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. (NOTE: Care should be taken to ensure that this note is modified to reflect the individual circumstances.)

Investments in Debt and Equity Securities – Investments in debt and equity securities are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues when earned.

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payers, and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Premium Revenue - The Hospital has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the Hospital receives monthly capitation payments based on the number of each HMO's participants, regardless of services actually performed by the Hospital. In addition, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

2. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare. Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. Beginning in 2XX2, the Hospital claimed Medicare payments based on an interpretation of certain "disproportionate share" rules. The intermediary disagreed and declined to pay the excess reimbursement claimed under that interpretation. Through 19XX, the Hospital has not included the claimed excess in net patient revenues pending resolution of the matter. In 20X7, the intermediary accepted the claims and paid the outstanding claims, including $950,000 applicable to 20X6 and $300,000 applicable to 20X5 and prior, which has been included in 20X7 net revenues. Approximately ___% and ___% of the Hospital's gross patient revenues were derived from Medicare beneficiaries in fiscal years 20X7 and 20X6, respectively.

Medicaid - Inpatient services and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The inpatient rates are established by the prepaid health plan of which the Hospital is a member. Outpatient services are reimbursed based on an established fee schedule. Annually, a copy of the Medicare cost report is submitted to the Medicaid agency to assist the agency in monitoring the program. Approximately __% and ___% of the Hospital's gross patient revenues were derived from Medicaid beneficiaries in fiscal years 2XX7 and 2XX6, respectively.

Blue Cross – Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed based on a cost reimbursement methodology. The Authority is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by Blue Cross. The Hospital's Blue Cross cost reports have been audited by Blue Cross through September 30, 20XX. Approximately ___% and ___% of the Hospital's gross patient revenues were derived from Blue Cross subscribers in fiscal years 2XX7 and 2XX6, respectively.

Other - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

3. Endowments and Restricted Net Assets

Restricted, expendable net assets are available for the following purposes:

	2XX7	2XX6
Program A Activities:		
Purchase of Equipment	$ 404	$ 321
Research	53	683
General	46	63
Program B Activities:		
Purchase of Equipment	$ 235	$ 235
Research	184	151
General	79	110
Program C Activities:		
General	206	400
Buildings and Equipment	94	72
Research	44	65
Total temporarily restricted fund balance	$ 1,845	$2,100

Unless the contributor provides specific instruction, Alabama state law permits the Board to authorize for expenditure the net appreciation (realized and unrealized) of the investments in its endowments. When administering its power to spend net appreciation, the Board of Trustees is required to consider the Hospital's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, 5 percent of the average market value of endowment investments at the end of the previous three years has been authorized for expenditure. The Board retains the remaining amount, if any, to be used in future years when the amount computed using the spending policy exceeds investment income. At September 30, 2XX7 and 2XX6, net appreciation of $864 and $953, respectively, is available to be spent, of which $402 and $682, respectively, is reported as restricted expendable net assets, and the balance is in unrestricted net assets.

Restricted nonexpendable net assets as of September 30, 2XX7 and 2XX6, represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earning from the Board's permanent endowments are expendable to support these programs as established by the contributor:

	2XX7	2XX6
Program A activities	$ 158	$ 158
Program B activities	176	176
Program C activities	423	423
Any activities of the Board	854	854
	1,611	1,611
Endowment requiring income to be added to Original gift until fund's value is $2,125	1,392	1,392
Total restricted nonexpendable net assets	$3,003	$3,003

4. Designated Net Assets

Of the $40,851 and $37,897 of unrestricted net assets reported in 2XX4 and 2XX3, respectively, $15,000 has been designated by the Board for capital acquisition. Designated funds remain under the control of the Board, which may at its discretion later use the funds for other purposes.

5. Deposits and Investments

The Board's deposits at year-end were held by financial institutions that participate in the State of Alabama's Security of Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

(If the Board's deposits are exposed to foreign currency risk, the U.S. dollar balance of such deposits organized by currency denomination should be disclosed.)

Statutes authorize the Board to invest in: a) securities that are direct obligations of, or the payment of the principal of and the interest on which is unconditionally guaranteed by, the United Sates of America, b) securities that are direct obligations of any agency of the United States of America, c) interest bearing deposits, including certificates of deposits, of any bank organized under the laws of the United States of America or any state thereof, and d) securities of the corporation.

(In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amended of GASB Statement No. 3,* the Board is required to briefly describe its investment policy for each type of applicable risk [e.g., credit risk, interest rate risk, custodial credit risk, and concentrations of credit risk. It must be stated if the Board does not have a policy for any of these risks. Interest rate risk information should be organized by investment type and amount using one of five methods as follows: Segmented time distribution; Specific identification; Weighted average maturity; Duration; and Simulation model. Only an example of the Segmented Time Distribution method is given below.)

September 30, 2XX7		Investment Maturity in Years			
Investment Type	Fair Value	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasuries	$ 119,864	$ 62,000	$ 42,864	$ 15,000	
U.S. Agencies	23,614		15,000		$ 8,614
Money Market Mutual Fund	74,420	74,420			
Commercial Paper	50,697	50,697			
Total	$ 268,595	$187,117	$ 57,864	$ 15,000	$ 8,614

September 30, 2XX6		Investment Maturity in Years			
Investment Type	Carrying Amount	Less Than 1	1 - 5	6 - 10	More Than 10
U.S. Treasuries	$ 120,039	$ 51,175	$ 52,864	$ 16,000	
U.S. Agencies	23,365		14,000		$ 9,365
Money Market Mutual Fund	63,366	63,366			
Commercial Paper	45,976	45,976			
Total	$ 252,746	$160,517	$ 66,864	$ 16,000	$ 9,365

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changes in interest rates. **(Example of note when the Board does not have an investment policy for interest rate risks)**

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limit its exposure to fair value losses arising from rising interest rates, the Board's investment policy limits at lease half of the Board's investment portfolio to maturities of less than one year. Investment maturities are limited as follows:

Maturity	Maximum Investment
One to five years	35%
Six to ten years	15%
More than ten years.	5%

(Example of note when Board does not an investment policy for interest rate risks.)

Credit Risk. State law requires that pre-refunded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency instrumentality or local governmental unit of any such state that the Board invests in be rated in the highest rating category of Standard & Poor's Corporation and Moody's Investors Service, Inc. The Board has also adopted this State law as their policy. **(Include this last sentence only if the Board has formally adopted this policy. Otherwise, include a sentence stating that the Board does not have formal policy.)** As of September 30, 20X7, the Commission's investments in money market fund were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service, Inc. The Board's mutual bond fund investments were rated AAAf by Standard and Poor's and Aaa by Moody's Investors Service, Inc. **(U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure. If an investment is unrated, indicate this fact. The credit quality ratings of external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities in which the government has invested should be disclosed.)**

Custodial Credit Risk. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The Board's investment policy limits the amount of securities that can be held by counterparties to no more than $XX,XXX. **(Include this last sentence only when the Board has adopted a formal custodial credit risk policy. Otherwise state that the Board has no policy.)** Of the investment in corporate bonds of $XXX,XXX, the Commission has a custodial credit risk exposure of $XX,XXX because the related securities are uninsured, unregistered and held by the Commission's brokerage firm which is also the counterparty for these particular securities. **(Custodial credit risk is the same as the previous category 3 risk and you will need to disclosure (1) investment type, (2) reported amount, and (3) how investments are held. Investments without this risk are external investment pools, open-end mutual funds and securities underlying reverse repurchase agreements.)**

Concentrations of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Board's investment policy does not allow for an investment in any one issuer that is in excess of five percent of the Commission's total investments. **(Include this last sentence only when the Board has a adopted a formal policy. Otherwise state that the Board has no policy.) (Must disclose the amount and issuer of investments in any one issuer that represent 5 percent or more of the total investments. This does not include U.S. government and investments in mutual funds, external investment pools and other pooled investments.)**

(If the Board's investments are exposed to foreign currency risk, the U.S. Dollar balance of such investments organized by currency denomination should be disclosed.)

Security Lending Transactions – transactions in which governmental entities transfer their securities to broker-dealers and other entities for collateral which may be cash, securities, or letters of credit, and simultaneously agree to return the collateral for the same securities

in the future. If the Board has security lending collateral that is reported in the statement of net assets/balance sheet, GASB Statement 40, paragraph 10 disclosures should be made.

The carrying amounts of deposits and investments as included in the Board's balance sheets as follows:

	2007	2006
Carrying amount		
Deposits	$ 5,021	$ 6,539
Investments	28,934	26,770
	$ 33,955	$ 33,309
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 7,136	$ 7,557
Short-term investments	3,142	3,423
Noncurrent cash and investments:		
Other long-term investments	2,605	1,327
Restricted by contributors and grantors for capital acquisitions and research	1,124	1,078
Internally designated for capital acquisitions	15,000	15,000
Held by trustee for debt service	1,945	2,005
Principal of permanent endowments	3,003	2,919
	$ 33,955	$ 33,309

6. Charity Care

Charges excluded from revenue under the Board's charity care policy were $7,100 and $6,845 for 2XX7 and 2XX6, respectively.

7. Accounts Receivable and Payable

Patient accounts receivable and accounts payable (including accrued expenses) reported as current assets and liabilities by the Board at September 30, 2XX7 and 2XX6 consisted of these amounts:

Patient Accounts Receivable

	2XX7	2XX6
Receivable from patients and their insurance carriers	$ 13,976	$ 11,868
Receivable from Medicare	4,286	3,002
Receivable from Medicaid	3,697	3,897
Total patient accounts receivable	21,959	18,767
Less allowance for uncollectibles amounts	2,125	2,040
Patient accounts receivable, net	$ 19,834	$ 16,727

Accounts Payable and Accrued Expenses

	2XX6	2XX5
Payable to employees (including payroll taxes)	$2,437	$1,970
Payable to suppliers	2,481	2,591
Other	27	14
Total amounts payable and accrued expenses	$4,945	$4,575

8. Capital Assets

Capital asset additions, retirements, and balances for the years ended September 30, 2XX7 and 2XX6 were as follows:

	Balance October 1, 2XX6	Additions	Retirements	Balance September 30, 2XX7
Land	$ 3,590			$ 3,590
Land improvements	645	17		662
Buildings and improvements	29,265	965	(810)	29,420
Equipment	30,375	3,547	(1,860)	32,062
Totals at historical cost	$63,875	$4,529	($2,670)	$65,734
Less accumulated depreciation for:				
Land improvements	(291)	(65)		(356)
Buildings and improvements	(5,352)	(582)	810	(5,124)
Equipment	(15,314)	(3,418)	1,860	(16,872)
Total accumulated depreciation	(20,957)	(4,065)	2,670	(22,352)
Capital assets, net	$42,918	$ 464	$ 0	$43,382

	Balance October 1, 2XX5	Additions	Retirements	Balance September 30, 2XX6
Land	$ 3,590			$ 3,590
Land improvements	608	112	(75)	645
Buildings and improvements	29,187	78		29,265
Equipment	26,710	3,921	(256)	30,375
Totals at historical cost	$60,095	$4,111	($331)	$63,875
Less accumulated depreciation for:				
Land improvements	(309)	(57)	75	(291)
Buildings and improvements	(4,826)	(526)		(5,352)
Equipment	(12,515)	(3,055)	256	(15,314)
Total accumulated depreciation	(17,650)	(3,638)	331	(20,957)
Capital assets, net	$42,445	$ 473	$ 0	$42,918

9. Capital Asset Impairments

GASB Statement No. 42*, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* is effective for periods beginning after December 15, 2004. Note disclosure is required under certain circumstances. Refer to the Statement itself for appropriate disclosures.

10. Long-Term Debt and Other noncurrent Liabilities

A schedule of changes in the Board's noncurrent liabilities for 2XX7 and 2XX6 follows:

	Balance October 1, 2XX6	Additions	Reductions	Balance September 30, 2XX7	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue notes	$ 18,714		($457)	$ 18,257	$ 620
Mortgage loan	1,808		(99)	1,709	99
Note Payable	570		(464)	106	106
Total long-term debt	21,092		(1,020)	20,072	825
Capital lease obligations	808	510	(468)	850	425
Other Liabilities:					
Compensated absences	2,625	662	(6)	3,281	
Net pension obligation	65	15		80	See Note 9
Total other liabilities	2,690	677	(6)	3,361	
Total noncurrent liabilities	$ 24,590	$1,187	($1,494)	$ 24,283	$1,250

	Balance October 1, 2XX5	Additions	Reductions	Balance September 30, 2XX6	Amounts Due Within One Year
Bonds and Notes Payable:					
Revenue notes	$ 19,568		($854)	$ 18,714	$ 457
Mortgage loan	1,907		(99)	1,808	99
Note Payable	1,045		(475)	570	464
Total long-term debt	22,520		(1,428)	21,092	1,020
Capital lease obligations	1,276		(468)	808	468
Other Liabilities:					
Compensated absences	2,400	236	(11)	2,625	
Net pension obligation	49	16		65	See Note 9
Total other liabilities	2,449	252	(11)	2,690	
Total noncurrent liabilities	$ 26,245	$252	($1,907)	$ 24,590	$1,488

Long-term debt – The terms and due dates of the Board's long-term debt, including capital lease obligations, at September 30, 2XX7 and 2XX6, follow:

- 7.25 percent Revenue Notes, due November 1, 2XZ7, collateralized by a pledge of the Board's gross receipts. Thus all operating and nonoperating revenues of the board are similarly pledged.
- 9.25 percent mortgage loan, due January 2XY4, collateralized by a mortgage on property and equipment with a depreciated cost of $1,530 on September 30, 2XX7.
- 9.75 percent note payable, due March 2XX8, unsecured.
- Capital lease obligations, at varying rates of imputed interest from 9.8 percent to 12.3 percent collateralized by leased equipment with cost of $1,275 at September 30, 2XX7.

Under the terms of the Revenue Note Indenture, the Board is required to maintain certain deposits with a trustee. Such deposits are included with restricted cash and investments on the balance sheet. The Revenue Note Indenture also places limits on the incurrence of additional borrowings and requires that the Board satisfy certain measures of financial performance as long as the notes are outstanding.

Schedule principal and interest repayments on long-term debt and payments on capital lease obligations are as follows:

	Long-term Debt		Capital Lease Obligations	
Year Ending September 30:	Principal	Interest	Principal	Interest
2XX8	$ 825	$ 553	$ 425	$ 58
2XX7	775	487	213	27
2XX6	836	465	212	13
2XX5	900	448		
2XX4	972	432		
2XX3 to 2XY7	5,764	1,769		
2XY8 to 2XZ2	4,824	1,492		
2XZ3 to 2XZ7	5,176	1,116		
Total	$ 20,072	$ 6,762	$ 850	$ 98

11. Defined Benefit Pension Plan

(NOTE: The following is an example of the note disclosures required by GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers. This information is for Boards which participate in the Employees' Retirement System of Alabama (ERS). If the entity participates in another pension plan in addition to or instead of the ERS, disclosure relevant to the other plan(s) should be made similar to what is provided below. For more detailed guidance refer to GASB Codification P20, Pe5 or Pe6, whichever is appropriate.)

A. Plan Description

The Board contributes to the Employees' Retirement System of Alabama, an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for various entities.

Substantially all employees of the Board are members of the Employees' Retirement System of Alabama. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service.[1] Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, and (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death is provided to plan members.

The Employees' Retirement System was established as of October 1, 1945, under the provisions of Act 515, Acts of Alabama 1945, for the purpose of providing retirement allowances and other specified benefits for State employees, State police, and on an elective basis to all cities, counties, towns and quasi-public organizations. The responsibility for general administration and operation of the Employees' Retirement System is vested in the Board of Control. Benefit provisions are established by the ***Code of Alabama 1975***, Sections 36-27-1 through 36-27-103, as amended, Sections 36-27-120 through 36-27-139, as amended, and Sections 36-27B-1 through 36-27B-6. Authority to amend the plan rests with the Legislature of Alabama. However, the Legislature has granted the Board authority to accept or reject various Cost-Of-Living-Adjustments (COLAs) granted to retirees.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

B. Funding Policy

Employees of the Board contribute __ percent of their salary to the Employees' Retirement System. The Board is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. The contribution requirements are established by the Employees' Retirement System based on annual actuarial valuations. The employer's contribution rate for the years ended September 30, 2XX7 and 2XX6 was ___ percent and _____ percent based on the actuarial valuation performed as of _____ and _____, respectively.

C. Annual Pension Cost

[1] For some Boards the number of years service required may differ (e.g. 30 years), depending on when the Board became a member of the ERS.

For the years ended September 30, 2XX7 and 2XX6, the Board's annual pension contribution of $_____ and $_____, respectively, was equal to the Board's required and actual contribution. The required contribution was determined using the "entry age normal" method. The actuarial assumptions as of _____, the latest actuarial valuation date, were: (a) 8 percent investment rate of return on present and future assets, and (b) projected salary increases ranging from 7.75 percent at age 20 to 4.61 percent at age 65. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability (funding excess*) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of September 30, 2XX6 was _____ years.[2]

(***NOTE :** If the actuarial value of assets exceeds the actuarial accrued liability, the term "funding excess" should be used instead of "unfunded actuarial accrued liability".)

The following is three-year trend information for the Board:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/X7	$_____	____%	$0
9/30/X6	$_____	____%	0
9/30/X5	$_____	____%	0

Below is actuarial information for the most recent actuarial valuation and the two preceding valuations:

Schedule of Funding Progress for the Hospital

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
9/30/X7						
9/30/X6						
9/30/X5						

[2] This information may vary and care should be taken to ensure that the information contained in this paragraph is modified based on the individual circumstances.

12. Other Postemployment Benefits (OPEB) [3]

NOTE: The following disclosure should be made if the Board provides post-employment benefits other than pension benefits. Some examples of post-employment benefits are: health care benefits, life insurance, disability income, etc. (Ordinarily, OPEB are post-employment benefits provided by an employer through a plan or other arrangement that is separate from a plan to provide retirement income.)

The disclosure may be made separately for one or more types of benefits OR in the aggregate for all OPEB provided and should include the following:

a. A description of the OPEB provided; employee groups covered; eligibility requirements; and the employer and participant obligations to contribute, quantified in some manner (for example, the approximate percentage of the total obligation to contribute that is borne by the employer and the participants, respectively, or the dollar or percentage contribution rates).

b. A description of the statutory, contractual, or other authority under which OPEB provisions and obligations to contribute are established.

c. A description of the accounting and financing or funding policies followed; for example, a statement that the employer's contributions are financed on a pay-as-you-go basis or are advance-funded on an actuarially determined basis. If the OPEB are advance-funded on an actuarially determined basis, the employer should also disclose the actuarial cost method and significant actuarial assumptions (including the interest rate and, if applicable, the projected salary increase assumption and the health inflation assumption) used to determine funding requirements and the method used to value plan assets.

d. The following expenditures/expense information, depending on how OPEB are financed:

   (1) If OPEB are financed on a pay-as-you-go basis, the amount of OPEB expenditures/expenses recognized during the period by the employer (net of participant contributions); also disclose the number of participants currently eligible to receive benefits. If expenditures/expenses for OPEB cannot be readily separated from expenditures/expenses for similar types of benefits provided to active employees and their dependents, employers should use reasonable methods to approximate OPEB expenditures/expenses. If a reasonable approximation cannot be made, employers should state that OPEB expenditures/expenses cannot be reasonably estimated.

   (2) If OPEB are advance-funded on an actuarially determined basis, the number of active plan participants, the employer's actuarially required and actual contributions for the period (net of participant contributions), the amount of net assets available for OPEB, and

[3] GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other than Pension*, will be effective for entities in phases similar to the implementation of GASB Statement No. 34 as follows: Entities with annual revenues of $100 million or more must implement this Statement for periods beginning after December 15, 2006; entities with annual revenues of $10 million or more but less than $100 million must implement this Statement for periods beginning after December 15, 2007; and entities with annual revenues of less than $10 million must implement this Statement for periods beginning after December 15, 2008.

the actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use.

e. A description (and dollar effect, if measurable) of any significant matters that affect the comparability of the disclosures required by this paragraph with those for the previous period (for example, a change in benefit provisions).

f. Any additional information that the employer believes will help users assess the nature and magnitude of the cost of the employer's commitment to provide OPEB.

EXAMPLE:

In addition to the pension benefits described above, the Board provides postretirement health care benefits to all employees who retire from the Hospital on or after attaining age 60 with at least 15 years of service. Currently 250 retirees (245 in 2XX6) meet these eligibility requirements. The Board reimburses 75 percent of the amount of validated claims for medical, dental, and hospitalization costs incurred by pre-Medicare retirees and their dependents. The Board also reimburses a fixed amount of $25 per month for a Medicare s supplement for each retiree eligible for Medicare. Expenses for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported to the Board. Expenses of $754 were recognized for postretirement health care in 2XX7; expenses recognized in 2XX6 were $636. Approximately $64 of the $128 increase in expenses over the previous year was caused by the addition of dental benefits, effective July 1, 2XX7.

13. Commitments and Contingencies

The Board is committed under various noncancelable operating leases, all of which are for equipment and computers. These expire in various years through 2XY9. Future minimum operating lease payments are as follows:

Year ending September 30:	
2XX8	$ 3,109
2XX9	2,898
2XY0	2,795
2XY1	2,780
2XY2	2,575
2XY3 – 2XY7	4,215
2XY8 – 2XY9	1,065
Total	$19,437

Litigation. The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Allowance for doubtful accounts. Beginning in 2XX4, the Hospital has provided care under an agreement with Associated HMO. The HMO currently owes the Hospital $950,000, substantially all of which is overdue. The Hospital has notified the HMO that further services under the contract cannot be provided without payment on the outstanding balance. The HMO has assured the Hospital that additional funds are being obtained in order to pay the overdue balance and continue service under the agreement, however, if the HMO is unable to make payments, additional allowances for bad debts would need to be accrued.

14. Medical Malpractice Claims

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. There are known claims and incidents that may result in an assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from services provided to patients. The Hospital has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice losses have been discounted at 7 percent and in management's opinion provide an adequate reserve for loss contingencies.

On March 15, 2XX7, a patient filed a suit against the Hospital for malpractice during care received as an inpatient. The Hospital believes it has meritorious defenses against the suit; however, the ultimate resolution of the matter could result in a loss. The patient has claimed $16 million in actual damages. Under state law, punitive damages are determined at trial. The Hospital maintains insurance coverage for malpractice claims. The coverage does not include punitive damages awards. Trial is scheduled to occur within the next year.

15. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2XX7 and 2XX6, was as follows:

	2XX7	2XX6
Medicare	51%	53%
Medicaid	17%	14%
Blue Cross	18%	17%
Other third-party payors	7%	9%
Patients	7%	7%
	100%	100%

16. Fair Value of Financial Instruments

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and Cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investments: Fair values, which are the amounts reported in the balance sheet, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Assets limited as to use: These assets consist primarily of cash and short-term investments and interest receivable. The carrying amount reported in the balance sheet is fair value.

Accounts payable and accrued expenses: The carrying amount reported in the balance sheet for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the balance sheet for estimated third-party payor settlements approximates its fair value.

Long-term debt: Fair values of the Hospital's revenue notes are based on current traded value. The fair value of the Hospital's remaining long-term debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of the Hospital's financial instruments at September 30, 2XX7 and 2XX6, are as follows (in thousands):

	2XX7		2XX6	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 4,758	$4,758	$ 5,877	$5,877
Short-term investments	15,836	15,836	10,740	10,740
Assets limited as to use	18,949	18,949	19,841	19,841
Long-term investments	4,680	4,680	4,680	4,680
Long-term investments restricted for capital acquisition	320	320	520	520
Accounts payable and accrued expenses	5,818	5,818	5,382	5,382
Estimated third-party payor settlements	2,143	2,143	1,942	1,942
Long-term debt	24,614	23,980	25,764	24,918

17. Related Party Transactions

Describe any related party transactions, if applicable.

18. Promises to Contribute

At September 30, 2XX2, the Hospital had received $1,500,000 of conditional promises to contribute to the building of a new facility for outpatient services. These contributions will be recorded as temporarily restricted support when received. The Hospital had no material outstanding unconditional promises of support at September 30, 2XX7.

19. Subsequent Event

On December 22, 2XX47 the Hospital signed a contract in the amount of $1,050,000 for the purchase of certain real estate.

NOTE: Although not presented in these sample illustrative financial statements, other disclosures required by GASB pronouncements may be applicable, including the following:

- Short-term debt (GASB Statement No. 38, paragraph 12)
- Segment information (GASB Statement No. 34, paragraphs 122 and 123, as amended by GASB Statement No. 37, paragraph 17)
- Violations of finance-related legal or contractual provisions (GASB Statement No. 38, paragraph 9)
- Risk financing (Requirements for disclosures about claims and judgments and risk financing by governmental health care entities that retain a portion of risk for claims and judgments are provided in GASB Statement No. 10, as amended. Additionally, GASB Statement No. 34, paragraph 119 requires disclosure of certain information about the long-term portion of accrued claims and judgments, if applicable.
- Net Assets Restricted for Enabling Legislation (GASB Statement No. 46)

Board Members and Officials
October 1, 20XX through September 30, 2XXX

	Position	Address	Term Expires
Board Member			
Hon. Joe Doe	Chairman	P. O. Box 1206 Fairfield, AL 36549	2008
Hon. Bill Doe, M.D.	Vice-Chairman	107 George Street Anniston, AL 36201	2008
Hon. Leon Jones, M.D.	Secretary	106 Maple Street Mobile, AL 35421	2008
Hon. Joe Smith	Treasurer	P. O. Box 116 Daleville, AL 36803	Indefinite
Hon Jane Smith	Member	Room 512 State Office Building Montgomery, AL 36130	Indefinite
Hon Oak Breeley	Member	P. O. Box 5 Scroggins, Alabama 36391	Indefinite
Hon. Mr. Mel Tillis	Member	900 Dushayne Street Melba, Alabama 36303	Indefinite
Official			
Hon. Ben R. Crowe	Administrator	1920 Montclaim Avenue Dothan, Alabama 36301	Indefinite

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Perpetual County Hospital Board as of and for the year ended September 30, 20__, and have issued our report thereon dated _____, 20XX.[1] We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered _____'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.[2]

Compliance and Other Matters[3]

As part of obtaining reasonable assurance about whether _____'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.[4]

This report is intended for the information and use of the audit committee, management and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

_____

CPA Firm

Date - (Last day of field work)

NOTE: This report is used when there are no reportable instances of noncompliance and no material weaknesses (no reportable conditions identified). Auditors should use portions of Examples 1 and 2 that apply to a specific auditee situation. For example, if the auditor will be giving an unqualified opinion on compliance but has identified reportable conditions, the compliance section of this report (Example 1) would be used along with the internal control section of Example 2. Alternatively, if the auditor will be giving a qualified opinion on compliance but has not identified reportable conditions, the internal control section of this report would be used along with the compliance section of Example 2.

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[1] Describe any departure from the standard report (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.).

[2] If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

> However, we noted certain matters involving the internal control over financial reporting that we have reported to the management of _____ in a separate letter dated _____.

[3] Other Matters are certain findings of fraud or abuse. This heading and the reference to "other matters" in the following paragraph should appear in all reports, even if the report does not present or refer to findings of fraud or abuse or even if the only findings of fraud or abuse are presented in or referred to from the section on internal control over financial reporting.

[4] If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

> We noted certain matters that we reported to management of _____ in a separate letter dated _____.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Perpetual County Hospital Board as of and for the year ended September 30, 2X__, and have issued our report thereon dated _____, 2X__.[1] We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered _____'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect _____'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below:

(*Describe the reportable conditions.)*

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. [2] [3]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether _____'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instances of

noncompliance or other matters that are required to be reported under ***Government Auditing Standards.*** [4]

(Describe the instances of noncompliance.)

This report is intended for the information and use of the audit committee, management and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

_____

CPA Firm

Date - (Last day of field work)

NOTE: This report is used when there are reportable (material) instances of noncompliance and reportable conditions. Auditors should use applicable portions of Examples 1 and 2 that apply to a specific auditee. For example, if the auditor is giving a qualified opinion on compliance but there are no reportable conditions in internal control, the auditor should use the compliance section of this report (Example 2) with the internal control section of Example 1. Alternatively, if the auditor is giving an unqualified opinion on compliance but has identified reportable conditions in internal control, the compliance section of Example 1 should be used along with the internal control section of this report (Example 2).

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[1] Describe any departure from the standard report (e.g. qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.)

[2] If conditions believe to be material weaknesses are disclosed, the report should identify the material weaknesses that have come to the auditor's attention. The last sentence of this paragraph should be replaced with language such as the following:

> However, of the reportable conditions described above, we consider *[List related finding]* to be material weaknesses.

[3] If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following at the end of the paragraph:

> We also noted certain matters involving the internal control over financial reporting that we have reported to management of _____ in a separate letter dated _____.

[4] If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

> We also noted certain additional matters that we have reported to management of _____ in a separate letter dated _____.

AUDITEE LETTERHEAD

Auditee Response

For the Year Ended September 30, 2XX3

Finding:

Response:

Finding:

Response:

Note: The format for the auditee response may vary but should meet the criteria contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

APPENDIX II

LEGAL COMPLIANCE INFORMATION

PROLOGUE

The accompanying legal compliance information has been provided to help familiarize auditors with some of the legal requirements applicable to public hospitals. The accompanying legal compliance information is subject to change and it is the responsibility of the auditor performing the audit of a public hospital to ensure that the appropriate legal compliance testing is performed based on the most recent applicable laws and regulations.

Public Hospital Corporations

The information contained in this section is applicable to CPA's performing audits of public hospitals. Attorney General Opinions cited in this section do not necessarily represent all opinions issued during the timeframe referenced. Further information may be secured by contacting the Department of Examiners of Public Accounts, Coordinator of Hospital Audits.

All public hospitals are operated pursuant to powers granted through statute. Some public hospitals are owned and operated directly by one or more counties and incorporated municipalities. Others are organized as public hospital corporations or public hospital authorities pursuant to act of the legislature, either general or local law. Public hospitals and public hospital corporations created pursuant to statute are not political subdivisions of the State. Legal Compliance depends upon the particular law under which the public hospital is organized.

1. Public hospitals may be organized pursuant to Chapter 95 of Title 11 codified as Code Sections 11-95-1 through 11-95-21.

Code Section 11-95-1 authorizes each county and any municipality located in the county to act jointly in authorizing the incorporation of one or more public corporations for the purpose of providing public hospitals facilities in such counties and to invest each corporation so organized with all powers that may be necessary to enable it to accomplish its purpose. Attorney General Opinion 83-00466, dated September 9, 1983, informed Perry County Probate Judge Floyd R. Cook that Section 11-95-7 is only applicable to a county hospital board created under that Section. Since the Perry County Hospital Board was organized under the provisions of Section 22-21-70, et seq., only the provisions of that Section apply to the board. Attorney General Opinion 91-00194, dated March 20, 1991, written to State Senator Larry D. Dixon, opined that public hospitals incorporated under Section 11-95-11 are exempt from all county, municipal and local taxes and are exempt from excise taxes levied by any county, municipality or other political subdivision of the State in respect to the privilege of engaging in any of the activities in which such corporation may engage. Said corporations are further exempt from paying any fees to a judge of probate of any county in respect to its incorporation, amendment of its certificate of incorporation or recording of any document.

2. Article 1 of Chapter 21 of Title 22 of the Code of Alabama 1975, Sections 22-21-1 through 22-21-8, provides for "hospitals and other health care facilities generally."

Code Section 22-21-1 provides that corporate authorities of any town, or city and the county commission of any county may establish hospitals for the reception of the sick or infirm or of persons suspected of having infectious or contagious diseases. Hospitals established by joint action of a county and a city or town may not be operated by a private corporation or association.

Code Section 22-21-5 provides that any public body heretofore or hereafter created and established by ordinance or resolution pursuant to Chapter 21 may become a body corporate and

politic under the name set forth in such ordinance or resolution by filing a certified copy of such ordinance or resolution with the Secretary of State. The corporations provided for shall have all the powers and authority of a health care authority as provided for by Article 11 of Chapter 21, Code Sections 22-21-310 through 22-21-344, except the corporations shall not exercise any power which is inconsistent or repugnant to the provisions of the ordinance or resolution under which it came into existence.

In Alabama Hospital Association v. Dillard, 388 So.2d 903 (Ala. 1980) the State Supreme Court had before it the question: "whether otherwise lawful expenditures made by public hospital association and public hospital corporations are prohibited by Sections 68 and 94 of the constitution." Id. at 904. The court held "that a public corporation is a separate entity from the state and from any local political subdivision, including a city or county within which it is organized." Id. at 905. The Court observed:

> The powers of public hospital associations and corporations are defined by statute. Section 22-21-1, Code 1975, et seq.
>
> Under these various statutes public hospitals have the authority to make expenditures within the corporate powers which are necessary and appropriate and consistent with the maintenance of public health services and facilities. Of course, they are not authorized by statute, or by common law, to exceed the corporate powers, nor may they ignore the fiduciary responsibilities and duties that are an integral part of all corporate existence.

Attorney General Opinions referenced below relate to hospitals established under Sections 22-21-1, et seq. Attorney General Opinion 79-00419, dated June 29, 1979, written to J. Ben Swindle, Director of the State Agency for Social Security, concluded that Code Sections 22-21-1 and Section 22-21-5 authorize the establishment of a public corporation. Any entity organized pursuant thereto is, accordingly a public corporation. Attorney General Opinion 84-00248, dated April 17, 1984, written to Phenix City Attorney Sam E. Loftin, concluded that family members of the mayor or councilman of Phenix City may be appointed to the board of directors of the Homer D. Cobb Memorial Hospital. It was also determined that city funds may be deposited in an institution where relatives of the mayor or a councilman is an officer if such relative is not a member of the household and is not financially dependent on the mayor or councilman. Also, city funds may be deposited in a mutual savings and loan association where the mayor or councilman is a depositor. In Attorney General Opinion 84-00421, dated August 20, 1984, written to Enterprise City Administrator Carl W. Griffin it was proffered that if a member of the board owned less than 10% of the stock in the bank where board funds are kept that Section 41-16-60, relating to conflicts of interest, would not be violated if the board member continued to serve on the board. If the board member owns 10% or more of the stock in the bank, he cannot serve on the board without being in violation of section 41-16-60 unless the funds of the hospital board are deposited in another bank. If the board member owns less than 10% of the stock and continues to serve on the hospital board, public policy would require that he refrain from participating in any discussion or voting on any matter regarding the placing of the funds in the bank where he serves as director. The Office of the Attorney General in Opinion 85-00405, dated June 26, 1985, written to Hormer W. Cornett determined that a municipal

hospital board may invest funds not presently needed for its corporate purposes only as provided in Section 22-21-77(15). The Office of the Attorney General in Opinion 88-00365 dated July 14, 1988 addressed to Ryan DeGraffenreid, Jr. determined that employees of a regional medical center organized pursuant to Sections 22-21-1, et seq., are public employees. Attorney General Opinion 92-00018, dated October 10, 1991, addressed to Allen C. Jones, attorney for Edge Regional Medical Center, concluded that the center may function as its own general contractor in the construction and renovation of facilities that it owns. It may employ experts such as superintendents of construction, consultants, and others possessing a high degree of professional skill. The employment of such experts falls within an exception to the competitive bid requirements of the law, Section 41-16-50(a)(3). Attorney General Opinion 93-00051, dated November 10, 1992, informed Oliver Kitchens attorney for the Randolph County Hospital Association that the audit of pubic owned hospitals is in lieu of the biennial audit by the Examiners of Public Accounts required for county departments, agencies, boards and institutions.

3. Public hospital associations are provided for at Article 3 of Chapter 21 of Title 22, Code Sections 22-21-50 through 22-21-57.

Code section 22-21-50 provides, in part, that "any one or more local governing bodies located in the same or contiguous counties within a zone determined by the State Board of Health as a zone for public hospitals may act to establish a hospital association, a body corporate and politic." Code Section 22-21-51 provides that a hospital association shall consist of directors appointed by the local governing bodies.

The Attorney General Opinions referenced below relate to public hospital associations organized under the provisions of Code Sections 22-21-50, et seq. In Attorney General Opinion 81-00104, dated November 26, 1980, written to David T. Hyde, Attorney for the Hospital Association of Conecuh County, it was determined that the county hospital association may purchase a building if acquisition of the building is to promote the general health of the county. The association may transfer its remaining assets to the county as a step toward dissolution of the association. Attorney General Opinion 82-00377, dated June 9, 1982, addressed to Mr. Neal Williams, Chairman of the Lawrence County Hospital Association was informed that the county hospital association may not finance the sale of real property and cited Section 94 of the Constitution. Alabama Hospital Association v Dillard, previously cited, has since held that public hospital corporations and public hospital associations are not political subdivisions of the State and not subject to Sections 68 and 94 of the Constitution of 1901. It was also held that a county hospital association may enter into a lease, option-to-buy, with a private concern and that a county hospital association may sell its medical facility to a municipality. The office of the Attorney General in Opinion 82-00549 informed Attorney Robert H. Brogden that a hospital association may establish a physician scholarship program and may enter into a contract with a physician providing income guarantees and/or expense subsidies. Attorney General Opinion 87-00134, dated March 31, 1987, informed Attorney William D. Scruggs that the DeKalb County Hospital Association is a public hospital association, a body corporate and politic established by the local governing body. The directors are appointed by the local governing body. Therefore, the hospital association is a "governmental entity" within the meaning of Code Section 11-93-2. In Attorney General Opinion 91-00130, dated December 28, 1990, written to Randolph County Probate Judge Mack Diamond it was determined that the county commission cannot call a

meeting of the directors and the executive committee of the Randolph County Hospital Association. The county commission, however, can ask the hospital association to hold a meeting and interested citizens may attend the meeting. A hospital association is a separate entity from any local political subdivision, including a city or county, although the board of directors may be appointed by the county governing body. The opinion cited as reference Alabama State Florist Association, Inc. v. Lee County Hospital Board, 479 So.2d 720 (Ala. 1985). In Attorney General Opinion 93-00051 addressed to Attorney Oliver Kitchens, previously cited, it was concluded that Section 22-21-50 provides for the steps for incorporating and obtaining from the Secretary of State a certificate of incorporation for a hospital association. Because there is no specific method of amending the articles of incorporation of a hospital corporation created under Sections 22-21-50, et seq., given by statute, the articles should be amended by the same procedure that the original articles of incorporation were adopted and issued. It was also determined that once the Randolph County Hospital Association was designated by the county commission to receive hospital tax proceeds, the duty to receive hospital tax proceeds can not be delegated to the county commission. The office of the Attorney General Attorney General in Opinion 94-00137, dated April 20, 1994, and addressed to DeKalb County Hospital Association Attorney W. N. Watson, opined that there is no statutory authority for a hospital association to invest its funds in mutual funds. It was stated that a public hospital corporation is not authorized by statute or common law to exceed its corporate powers. An Attorney General Opinion (No. 97-00107) dated February 12, 1997 written to State Senator Dial held that a county hospital board organized pursuant to provisions of Title 22, Code, is subject to the Sunshine Law found at Section 13A-14-2, and all of its meetings should be open to the public, except as provided therein. The Office of the Attorney General in Opinion 97-00183, dated May 12, 1997, to Kenneth W. Quattlebaum proffered that the State Open Meeting Law found at Code Section 13A-14-2 applies to the board of directors of the Dale County Hospital Association. Attorney General Opinion 97-00235, dated July 25, 1997, written to Randolph County Hospital Association Attorney Oliver Kitchens, determined that a county hospital association board of directors is responsible for maintaining its records at an appropriate location under the supervision of a responsible person designated by the board. On July 29, 1997, the Office of the Attorney General issued Opinion 97-00238 written to "Dale Medical Center" Attorney Kenneth W. Quattlebaum. He was informed that the Dale County Hospital Association is subject to the State Competitive Bid Law set forth at Code Sections 41-16-50, et seq. It was further stated that a project for the renovation of the hospital association's existing facility or construction of a new facility and the selection and employment of a general contractor for said project are subject to the State Competitive Bid Law. On October 27, 1997 Mr. Quattlebaum was informed by letter of the Attorney General that the above-referenced opinion considered only the specific statute inquired about, Sections 41-16-50, et seq. However, Act No. 97-225, which amended Section 41-16-50 and the State's public work laws, Sections 39-1-1, et seq., should be reviewed as they may also apply to the renovation project of a hospital association. On October 3, 1997, the Office of the Attorney General informed Mr. Quattlebaum (Opinion 98-00001) that the Dale County Hospital Association is not authorized to enter into a joint venture with private individuals or business entities by creating a corporation, partnership, or limited liability corporation to provide health services.

4. Code Sections 22-21-70 through 22-21-83 (Division 1 Article 4, Chapter 21 Title 22) provides for hospital boards.

Code Section 22-21-71 provides that any "corporations organized under this division shall be nonprofit corporations, and no part of net earnings thereof shall inure to the benefit of any member thereof or other individual or private corporation." A corporation established under Section 22-21- 70, et seq., is a separate entity from the state and any local political subdivision including the county in which it is organized. See Alabama State Florist Association v. Lee County Hospital Board. Code Section 22-21-76 provides that the members of the board of directors shall serve without compensation, except they may be reimbursed for actual expenses incurred in the performance of their duties as directors.

Attorney General Opinion 80-00276, dated May 18, 1980, written to Town of South Vinemont Mayor E. W. Patton, determined that a town may contribute funds to a hospital organized under the provisions of Sections 22-21-70, et seq. Attorney General Opinion 80-00386, dated June 9, 1980, written to Secretary Morgan Reynolds of the Chilton County Hospital Board states that a county hospital board subject to the provisions of Code Section 22-21-77 has the power to lease the hospital's facility to private individuals. Any lease agreement must provide adequate consideration for the lease of the facility. The Office of the Attorney General in an August 6, 1980 opinion (80-00498) addressed to Mayor F. Basil Clark of the City of Clanton concluded that a county may authorize the organization of a county hospital board under the provisions of Section 22-21-70 through 83; or, a county hospital authority under the provisions of 22-21-170 through 191. It was stated that if the county were to authorize the creation of either a hospital board or hospital authority it would be lawful for the municipality to provide services or funds to the board or authority. Code sections 22-21-81, 22-21-179(21) and 11-47-134. The Office of the Attorney General in Opinion 81-00020, dated October 10, 1980, informed Attorney Morgan Reynolds that a county hospital may authorize the sale of hospital property for valuable consideration without obtaining approval of the county commission. It was further stated that the proceeds of the sale of the hospital property go to the county hospital board. Attorney General Opinion 81-00141, dated January 6, 1981 written to James J. F. Berry, attorney for the Cullman County Hospital Board, determined that only expenditures which are necessary for the operation or maintenance of a public nonprofit hospital corporation should be reimbursed to the hospital administrator and board members of the hospital. Attorney General Opinion 81-00142, dated January 6, 1981, written to A. R. McVay Superintendent of the Baldwin County Board of Education proffered that directors of a public hospital corporation may also be a member of the county board of education. The office of the Attorney General in Opinion 81-00267 dated February 19, 1981 addressed to Perry County Commission Chairman Floyd R. Cook, stated that funds allocated for the purpose of paying the salary of county hospital staff physicians may then be conveyed to the Perry County Hospital Board pursuant to Section 22-21-81. This Section authorizes counties to convey to a county hospital board, without consideration, monies allocated for the operation of a county hospital, provided that the transfer is authorized by a duly authorized resolution of the county commission. Attorney General Opinion 81-00273, dated March 5, 1981, informed attorney Jack Huddleston that the Colbert County Hospital Board has specific authority under Code Section 22-21-77(14) to invest surplus funds solely in interest bearing securities issued by the United States. Opinion 81-00500 written on August 14, 1981 to

Bullock County Hospital Board Chairman Don Priori concluded that conflict of interest exists if the administrator of a county serves on the board of directors of the county hospital corporation. The Office of the Attorney General in Opinion 81-00536, dated August 25, 1981, informed Herman Moore Chairman of the Board of Directors of Shelby Memorial Hospital, that the hospital board is the properly designated agency of the county to acquire, construct, equip, operate, and maintain public hospital facilities. Therefore, the proceeds of the special tax should be paid over to the board and used by it for any one of the purposes for which the tax has been voted. Attorney General Opinion 82-00400, dated June 17, 1982, informed the Chairman of the Greene County Commission, William M. Branch, that the Chairman of the Greene County Board of Education may also serve on the Greene County Hospital Board organized under the provisions of sections 22-21-70 through 22-21-112. The Office of the Attorney General in Opinion, 82-00510, dated August 13, 1982 informed William W. Dillard, Chief Examiner Department of Examiners of Public Accounts, that the Jackson County hospital board must make some showing of necessity when exercising its discretionary authority to provide incentives to locate in Jackson County. It was stated that it would appear to be reasonable to pay the moving expenses of a perspective physician and provide free office space for one year on board owned property. It was also stated that an argument could "probably be made" that interest free loans for the purpose of purchasing capital equipment would be acceptable provided the proper security agreement is filled. Attorney General Opinion, 82-00564 dated September 22, 1982, written to Mr. John W. Lowe, determined that surplus funds from tax levied under Amendment No. 72 may be used for construction, operation and maintenance of the county hospital and can be used for other public health facilities that the county governing body deems in the public interest. Attorney General Opinion, 83-00059, dated November 3, 1982, informed Tillman L. Hill, Administrator of Burdick-West Memorial Hospital, that Winston County Hospital Board may contract with a private ambulance company for ambulance service and pay a periodic subsidy for those services. Opinion 83-00330, dated May 30, 1983, written to C. E. Carter, Chairman of the Shelby Medical Center, opined that the medical Center may contract for ambulance service upon receipt of adequate consideration. The Office of the Attorney General in Opinion 83-00353, dated June 20, 1983, addressed to Greene County Attorney John H. England, Jr. determined that membership of the Greene County Hospital board must be nine members pursuant to Code of Alabama Section 22-21-73(a)(3). The Office of the Attorney General in Opinion 83-00466, dated September 9, 1998, informed Perry County Probate Judge Floyd R. Cook that the provisions of Sections 11-95-1, et seq, are applicable to joint municipal/county hospital boards and not to a county hospital board organized under Sections 22-21-70, et seq. Attorney General Opinion, 84-000216, dated March 23, 1984, written to George Allen Desmond, Chairman of the Bibb County Commission, determined that the Bibb County Commission may remove a member of the Hospital Board before the end of his or her term only if the member becomes incapable of acting as a board member. In Opinion 85-00242 written to Jackson County Attorney Jack Livingston, dated March 12, 1985, it was proffered that the Jackson County Hospital cannot expend public funds in a risk venture with a for profit entity. It was stated that Section 22-21-70 neither contemplates nor provides for funds of the hospital board to be expended or allotted to any institution or organization over which the hospital board has no direct control or supervision. (Opinion to Dean H. Byrd, Sr., Quarterly Reports of the Attorney General, Volume 136 at page 23; opinion to Morgan Reynolds October 14, 1982). Attorney General Opinion, 86-00111, dated January 9, 1986, addressed to Morgan Reynolds, Secretary Chilton County Hospital Board, concluded that surplus millage tax funds of the board

may be contributed to the county commission to aid in the care of indigents. Attorney General Opinion 86-00373, dated September 22, 1986, written to James H. Robertson, Certified Public Accountant, concluded that the North Baldwin Hospital Board may sell and finance real property belonging to the board. The board should receive fair market value and the board's interests should be protected by a financing agreement. Financing the sale of real property is a form of legal conveyance or transfer within the authority of Section 22-21-77(4). Attorney General Opinion 86-00383, dated September 29, 1986, written to William F. Covington, Henry County Board of Education Superintendent, opined that a hospital board may appropriate funds to a county school board for the express purpose of maintaining a school health clinic. The Attorney General in Opinion 87-00235, dated June 29, 1987, to Judge Cook concluded that the Perry County Hospital Board may share some of the rent monies from the lease of the county hospital with the Perry County Commission if there will be sufficient funds to pay all obligations of the board which may arise. Attorney General Opinion 88-00218, dated March 29, 1988, to Morgan Reynolds, Secretary of the Chilton County Hospital Board, concluded that the Chilton County Hospital is authorized to voluntarily contract for the payment of funds to the Chilton County Department of Public Health, the Chilton-Shelby Mental Health Center and Central Alabama Community Hospital so long as said funds are used for the purposes specified in Code Section 22-21-77(5). It was further proffered that the board may share some of its funds with the county commission so long as there will be sufficient funds to pay all obligations of the board which may arise. The Office of the Attorney General in Opinion 88-00313, dated June 10, 1988, written to Attorney Dean H. Buttram, Jr. indicated that the Cherokee County Commission, the Cherokee County Hospital Board established in accordance with Section 22-21-70, et seq., or the Baptist Center-Cherokee, a private entity which operates the hospital in that county, may operate an ambulance service. However, none of these entities has a legal responsibility to operate an ambulance service, as such authorization is permissive and not mandatory. It was also determined that the four mill tax proceeds collected under Constitutional Amendment No. 72 must be paid by the tax collector to the Cherokee County Hospital Board. The board is the proper agency to expend such funds. Attorney General Opinion 90-0045, dated November 16, 1989, written to Representative Richard Laird espoused that while Section 22-21-70, et seq., does not specifically require that the directors of the county hospital boards keep minutes of director's meetings, under the general law pertaining to nonprofit corporations, the directors of a county hospital must keep minutes of the meeting. The minutes must reflect motions made and seconded and by whom. Attorney General Opinion 90-00279, dated May 17, 1990, written to Attorney John W. Lowe asserted that pursuant to Section 22-21-77(4) and (5) that Winston County Hospital Board may offer such recruitment incentives to physicians to locate in Winston County as the board reasonably determines are necessary. Although the hospital association in question was incorporated pursuant to section 22-21-50, et seq., it was the opinion of the Attorney General that Section 22-21-77(4) and (5) would authorize the hospital board to lease office property and to provide the leased space at no cost to the doctor in private practice if the board reasonably determined that these steps are necessary to recruit physicians in the county. Opinion 90-00279, dated May 17, 1990, cited a September 10, 1982 opinion written to Robert H. Brogden which held that the Dale County Hospital Association could contract with a prospective physician to provide clearly defined compensation, including income guarantees and or expense subsidies, for services rendered to the hospitals. The board must make some showing of necessity when exercising its discretionary authority to provide such incentives. In order to attract doctors to the county the board may pay a physician's salary, rent and other expense until

such time as the doctor can maintain his or her own private practice. Attorney General Opinion 95-00030, dated November 7, 1994, written to Mary F. Gunter, Secretary/Treasurer of the Henry County Hospital Board, stated that a hospital board is not authorized to construct, own and operate an assisted living facility. However, health care authorities incorporated under Sections 22-21-310 through 22-21-359 may do so, and under the provisions of sections 22-21-351 and 22-21-352 the board may be able to reincorporate as a health care authority pursuant to Section 22-21-310, et seq. In Attorney General Opinion 95-00141, dated March 8, 1995, Attorney Michael E. Jones was informed that the City of Luverne may contribute funds to the Crenshaw County Hospital organized under Code Section 22-21-70, et seq., or the Crenshaw County Commission. It was concluded that the hospital board may contract with the nonprofit corporation to which the hospital is leased to operate an emergency room. Attorney General Opinion 95-00143, dated March 9, 1995, written to Michael E. Jones attorney for the Electric Board for the City of Luverne stated that a county commission by virtue of Code Section 22-21-81 may by a duly adopted resolution appropriate funds to a hospital corporation. Attorney General Opinion 81-00267, dated February 19, 1981, addressed to Perry County Commissioner Floyd Cook was cited. Opinion 95-00143, dated March 9, 1995, written to Mr. Jones further concluded that if the electric board of the city has surplus funds from the issuance of bonds and the collection of revenue, and if the proceedings authorizing the issuance of bonds provided that such surplus funds can be used in any lawful manner or similar language, the electric board may contribute these surplus funds to the Crenshaw County Hospital Board or the Crenshaw County Commission. The county hospital board may then contract with the nonprofit corporation leasing the hospital for the operation of an emergency room. Attorney General Opinion 97-00183, dated May 12, 1997, written to General Counsel Kenneth Quattlebaum counsel for "Dale Medical Center," opined that the State open meetings law found at Code Section 13A-14-2, also applies to the Board of Directors organized under Section 22-21-70. Attorney General Opinion 81-00513, dated August 14, 1981 written to State Senator Ronald L. Myers was cited in support. Opinion 97-00187, dated May 15, 1997, written to Monroe County Hospital Board Chairman Jackie Weatherford determined that hospital boards may own and operate rural health clinics in such locations in the county as the board determines best serves the citizens of the county. The Office of the Attorney General in Opinion 98-00176, dated June 30, 1998, written to Bullock County Hospital Board Chairman Hawthorne Reed, determined that a county hospital organized pursuant to Code Sections 22-21-70 through 22-21-83 may expend funds derived from an ad valorem tax to make physical improvements to a health care facility owned by it. Whether it can expect to recoup such expenditure from a for-profit operating company to which it leases the facility involves factual issues which are uniquely within the province of the board, and which must be determined by it. Attorney General Opinion 99-00110, dated February 11, 1999, addressed to Morgan Reynolds, Secretary of the Chilton County Hospital Board, concluded that Section 22-21-76(4) of the Code would not prohibit a county superintendent of education from also serving as a hospital board member. It was also stated that Article XVII, Section 280, of the Constitution of Alabama does not prohibit an individual from simultaneous serving as county superintendent of education and as a member of the hospital board. In Attorney General Opinion 2002-226, dated May 8, 2002, written to Bullock County Hospital Board Chairman Hawthorne Reed, it was determined that a county hospital board may not make loans to a private, for profit corporation using funds it receives that are derived from ad valorem taxes. The Office of the Attorney General in Opinion 2002-335, dated September 12, 2002, written to Tallapoosa County Hospital Board Attorney Robin F. Reynolds, stated that a public corporation may dispose of

property it owns "by any form of legal conveyance". It was stated that the Tallapoosa County Hospital Authority may sell its assets to a private entity and that State law does not require that any other entity approve the board's actions. In Attorney General Opinion 2003-108, dated March 24, 2003, written to Bullock County Hospital Board Chairman Hawthorne Reed, it was determined that the board may use funds derived from ad valorem taxes to help fund a not for profit rescue unit for the benefit of the citizens of Bullock County.

5. Title 22 Chapter 21, Article 4 Division 2 relates to hospital corporations and is codified at Sections 22-21-100 through 22-21-112.

Code Section 22-21-101 provides in part that "the county commission of any county in which a special tax for hospital purposes has heretofore been or shall hereafter be authorized at an election held in the county pursuant to the provisions of any amendment to the Constitution shall have the power to designate a hospital corporation in the county as the agency to acquire, equip, operate, and maintain public hospital facilities in the county as a whole if the said special tax is a countywide tax or that portion of the county in which the tax shall have been voted if the said tax is not a countywide tax." Section 22-21-102 provides that when a hospital corporation has been so designated by the county commission that any proceeds from any special tax for hospitals purposes that shall be paid to such corporation shall be used for one or more of the purposes for which the tax has been voted.

The Office of the Attorney General in Opinion 80-00471, dated July 21, 1980, informed John Hollis Jackson, attorney for the Chilton County Commission, that a hospital Corporation designated by the county commission under the provisions of Section 22-21-100, et seq., may obligate the county commission to continue a special county tax at a rate sufficient to prevent the impairment of the obligation of any contract made with respect to such tax. The Office of the Attorney General in Opinion 2002-329, dated September 3, 2002, informed J. Daryl Betts, Certified Public Accountant for the Crenshaw County Hospital Board that the Board operating under Sections 22-21-100 through 112 may contribute public funds to the company providing insurance to the hospital if the board finds that such a donation serves a valid public purpose.

6. Title 22 chapter 21 Article 6, Sections 22-21-170 through 22-21-191, provides for county and municipal hospital authorities.

At Code Section 22-21-171 it is provided that Article 6 authorizes in each of the several counties of the state the organization of a public corporation or corporations for the purpose of acquiring, owning and operating public hospitals and other health care related facilities in the county in which such corporation shall be organized.

7. The Health Care Authorities Act of 1982 (Acts 1982, No. 82-418 page 629) is found at Article 11 of Chapter 21 of Title 22 and is codified as Sections 22-21-310 through 22-21-344.

Existing hospitals may reincorporate under the authority of Sections 22-21-310, et seq. Code Section 22-21-316(c) provides that board directors shall serve without compensation but shall be reimbursed for expenses actually incurred in and about the performance of duties. A majority of the directors shall constitute a quorum for the transaction of business. Any meeting

of the board may be adjourned by a majority of the directors present. A single director may adjourn the meeting, if he is the only director present. Code Section 22-21-318(a)(6) allows a health care authority to lease or otherwise make available any health care facilities or other of its properties and assets to such persons, firms, partnerships, associations or corporations and on such terms as the board deems to be appropriate. Thus, the board may provide a physician with equipment and other assets. Code Section 22-21-318(a)(28) provides that the authority may make any expenditure of any moneys under its control that would, if the authority were generally subject to the state corporate income taxation, be considered as ordinary and necessary expense of the authority within the meaning of Section 40-18-35 and applicable regulations thereunder and without limiting the generality of the foregoing, to expend its moneys for the recruitment of employees and physicians and dentists and other health care professionals. .

Code Section 22-21-334 provides that the provisions of Chapter 25 of Title 36 (Ethics Law) shall, any provision thereof to the contrary notwithstanding, not apply to any authority, the members of the board or any of its officers or employees. Code Section 22-21-335 provides that the provisions of Article 2 and 3 of Chapter 16 of Title 41 (Bid Law) shall not apply to any authority, the members of its boards or any of its officers or employees. Health authorities are exempted from the provisions of Code Section 13A-14-2 (Sunshine Law) or other similar laws per Code Section 22-21-316(c).

Additional powers are found at Title 22, Chapter 21 Article 11, Division 1, Code Sections 22-21-350 through 22-21-356. Further additional powers are found at Article 11 Division 2, Code Sections 22-21-357 through 22-21-359.

The following Attorney General Opinions are related to health care authorities organized under the provisions of 22-21-310, et seq. Attorney General Opinion 88-00249, dated April 7, 1988, written to Representative Perry O. Hooper, Jr., concluded that under certain circumstances that a health care authority may be covered by the provisions of the immunity statute found at Section 10-11-1, et seq. The authority may provide for indemnification of its directors for liability rising from their acts or omissions in the scope of their duties. Attorney General Opinion 89-00105, dated December 30, 1988, written to J. H. Ford, Jr., President of DCH Health Care Authority, opined that the authority may provide for indemnification of members of its board of directors, officers, and certain other persons and may purchase liability insurance to cover directors, officers, et al. Attorney General Opinion 89-00188, dated February 17, 1989, written to Attorney George M. Barnett, opined that a hospital authority, its contractors and subcontractors are exempt from sales and use tax under Section 22-21-333 for the construction materials and equipment used in the construction of a health care facility. Attorney General Opinion 93-00127, dated February 23, 1993, written to Charles Nabors, Administrator of the Health Care Authority of the City of Demopolis, was informed that the authority did not owe taxes billed against the property purchased on September 30, 1991, though the deed was not filed on October 1, 1991. It was concluded that the tax assessed is void and no effective lien is attached to property owned by an exempt entity. Attorney General Opinion 93-00143, dated March 1, 1993, written to Phillip E Dotson, Chief Executive Officer for the Athens/Limestone Hospital, held that a health care authority, may enter into an agreement whereby the authority pays for the education and training of a hospital-based physician, medical student or health care worker in exchange for a commitment from the individual to work a specified period of time for

the authority. Attorney General Opinion 94-00025, dated October 21, 1993, written to Marshall County Health Care Authority Attorney George Barnett opined that to the extent permitted by the contracts that an authority has with holders of its securities, Marshall County Health Care Authority and other health care authorities organized, incorporated or reincorporated pursuant to the Health Care Authorities Act of 1982, may invest surplus funds in those securities enumerated at Code Section 22-21-355. In Attorney General Opinion 94-00217, dated July 7, 1994, also written to Mr. Barnett, it was stated that pursuant to Section 40-12-222 that the tax imposed on the business of leasing or renting is levied against the lessor not the lessee. It was stated that pursuant to Section 22-21-333 the exemption relating to leases which is granted to health care authorities is applicable only when those authorities are lessors. Attorney General Opinion 96-00090, dated January 9, 1996, written to Robert S. Presto, Attorney for the Escambia County Commission, determined that the Escambia County Health Authority retains the tax-exempt status conferred upon it by and within Section 22-21-333 and that approval of the governing body of Escambia County was not necessary prior to entering into a lease and asset transfer agreement with Escambia County Alabama Community Hospitals, Inc. It was further stated that the tax collector should continue to pay and distribute county taxes to the authority in accordance with the laws and regulations in effect. Attorney General Opinion 96-00163, dated March 26, 1996, written to Warren H. Beck, Chairman of the Geneva County Health Care Authority, Inc., concluded that a health care authority under the provisions of Code Section 22-21-310, et seq., and its contractor and subcontractors are exempt from the payment of sales and use tax on the purchase of construction materials and equipment used in the construction of an addition to an existing health care facility. The same conclusion was reached in Attorney General Opinion 89-00188, dated February 17, 1989, written to attorney George M. Barnett. Attorney General Opinion 96-00201, dated May 1, 1996, written to Administrator Charles E. Nabors of the Tombigbee Healthcare Authority concluded that properties of a health care authority are exempt under Section 22-21-333 from municipal license and permit fees. Attorney General Opinion 96-0032, dated November 3, 1995, written to Irby A. Keener, Jr., Attorney for the Cherokee County Health Care Authority espoused that the Authority had the authority under Section 22-21-318 to construct an assisted living facility building and handicap-equipped apartment for the elderly. Attorney General Opinion 96-00032, dated November 3, 1995, issued to Cherokee County Health Care Authority Attorney Irby A. Keener, Jr., proffered that a health authority has the authority to construct an assisted living facility building and handicap-equipped apartments for the elderly. Attorney General Opinion 96-00090, dated January 9, 1996, addressed to Escambia County Commission Attorney Robert S. Presto opined that the Escambia County Health Care Authority retains the tax-exempt status conferred upon it by and within Section 22-21-333. Approval of the governing body of Escambia County was not necessary prior to entering into the lease and asset transfer agreement with Escambia County Alabama Community Hospital, Inc. It was also determined that the tax collector of Escambia County Alabama should continue to pay and distribute county taxes to the Authority in accordance with the laws and regulations now in effect. Attorney General Opinion 96-00107, dated January 25, 1996, addressed to City of Opelika Attorney Guy F. Gunter, III, proffered that a city may transfer funds to a health care authority for providing ambulance service and designate the authority as the sole emergency service provider within the municipality and its police jurisdiction. The Office of the Attorney General informed Saint Clair County Health Care Authority Attorney William J. Trussell in Opinion 96-00125, dated February 6, 1996, that said Authority does not have the authority to pay former non-vested employees additional compensation obtained from refunds received by the

authority following termination of participation in the Retirement Systems of Alabama. Attorney General Opinion 96-00201, dated May 1, 1996, written to CEO/Administrator Charles E, Nabors for Tombigbee Healthcare Authority, opined that properties of a health care authority are exempt from municipal licenses and permit fees. Attorney General Opinion 96-00202, dated May 3, 1996, written to State Health Officer Donald E. Williamson concluded that health care authorities are exempt from the payment of sales, use and excise taxes under Article I and II of Chapter 23 of Title 40. Attorney General Opinion 97-00198, dated June 4, 1997, addressed to Clarke County Probate Judge Clarence Watters opined that the Tombigbee Healthcare Authority, operating the Bryan W. Whitfield Hospital, is not exempt by Code Section 22-21-333 from paying the $1.50 fee for filing a claim against an estate. The Office of the Attorney General in Opinion 98-00068, dated January 7, 1998, informed Wyatt R. Haskell, attorney for the Blount County Health Care Authority, organized under the provisions of Sections 22-21-311 to 22-21-359, that an election held pursuant to Act No. 114 (1973) would in its opinion be held to be of no effect if brought to the consideration of a court of competent jurisdiction by a proper complaint alleging unconstitutionality of the act on the basis of Sections 42, 43, 44 and 212 of the Constitution of Alabama. Attorney Genreral Opinion 99-0009, dated October 19, 1998, written to Attorney Gary W. Lackey, concluded that an amendment to the bylaws of the Jackson County Health Care authority, providing for removal of a member of the board of directors by a vote of two-thirds of the directors conflicts with Section 22-21-316(d) providing for the removal of the members of the board of a health care authority. Attorney General Opinions 2000-057 and 2000-058, dated December 30, 1999 written to Baldwin County Commissioner Frank Burt Jr., and Attorney Thomas W. Underwood of the South Baldwin Health Care Authority determined that said authority may lease its facilities and equipment and enter into an agreement for the management and the administration of the hospital. It was also stated that the referenced health authority established under Code Sections 22-21-310 through 22-21-344 will not lose its tax exempt status by entering into said lease agreement and that it was not necessary for the governing body to be a party to the contract. In Attorney General Opinion 2002-113, dated January 4, 2002, written to Attorney Frank K. Grande, it was stated that ad valorem tax revenues can be spent within any reasonable time as determined by the North Baldwin County Health Care Authority. The Office of the Attorney General in Opinion 2003-039, dated November 25, 2002, written to Attorney Broox G. Garrett, Jr., opined that the Escambia County Health Care Authority can donate to the Town of Flomaton property formerly used as a small hospital facility. The health care authority will not lose its tax exempt status by entering into the lease agreement. It is not necessary for the county governing body to be a party o the contract. Attorney General Opinion 2003-0058, dated December 30, 2002, written to Mary F. Gunter, Attorney for the Henry County Health Care Authority, indicated that the authority's board of directors not the county commission exercises the decision of approving, rejecting, or refraining from any action upon a presented claim against the authority, its nursing home or two assisted living facilities.

Ethics Law

Unless specifically excluded by statute, as in the case of health authorities organized under Code Sections 22-21-310, et seq., the Ethics Law found at Code Sections 36-25-1, et seq., is applicable to public hospitals. Code Section 36-25-5(a) prohibits public officials and

employees from using their official position for personal gain. Code Section 36-25-5(c) provides that "no public official or public employee shall use or cause to be used equipment, facilities, time, materials, human labor, or other public property under his or her discretion or control for the private benefit or business benefit of the public official, public employee, any other person, or principal campaign committee as defined in Section 17-22A-2, which would materially affect his or her financial interest, except as otherwise provided by law or as provided pursuant to a lawful employment agreement regulated by agency policy…" There are numerous Ethics Commission Opinions asserting jurisdiction over public hospital corporations.

Competitive Bid Law

Code of Alabama 1975, Section 41-16-51(b)(5), 1997 provides that purchases for public hospitals and nursing homes operated by the governing boards of instrumentalities of the state, counties, and municipalities are exempted from the State Competitive Bid Law. Contracts for the enlargement, construction or alteration of public hospital facilities operated by the governing boards of an instrumentality of the states, counties and municipalities are subject to the Bid Law. An Attorney General Opinion, dated March 8, 1979, to Hoyt Levie, Chairman of the Marshall County Hospital Board, indicated that the Attorney General has consistently ruled that contracts for the enlargement, construction, or alteration of public hospital facilities operated by governing boards of an instrumentality of the state, counties, and municipalities are subject to the Competitive Bid Law. The Opinion referenced a previous Attorney General Opinion dated December 15, 1971 addressed to Thomas Reuben Bell Attorney for the Sylacauga Hospital Board as support. In Attorney General Opinion 91-00334, written to East Regional Medical Center Attorney Allen C. Jones, dated July 31, 1991, it was opined that public hospitals established pursuant to Sections 22-21-1 through 22-21-8 have only the powers provided in section 22-21-5 and are not exempt from the provisions of the Competitive Bid Law found at Sections 41-16-52, et seq. As previously stated, Opinion 97-00238 determined that the Dale County Hospital Association, organized under Section 22-21-50(b), is subject to the State Competitive Bid Law Section 41-16-50. It was further stated that a project for the renovation of the hospital association's existing facility or construction of a new facility and the selection and employment of a general contractor for said project are subject to the State Competitive Bid Law. See also the Public Works Law at Code of Alabama 1975, Section 39-2-1, et seq., for guidance on bidding public work projects. As previously indicated, Code Section 22-31-335 excludes health authorities from the State Competitive Bid Law.

Sunshine Law

Public hospital corporations are subject to the provisions of Code Section 13A-14-2, except health authorities organized under Section 22-21-310, et seq. Attorney General Opinion 81-00513, written to District Attorney Ronald L. Myers, on August 14, 1981 concluded that the Lee County Hospital Board was organized as a public hospital under the provisions of Sections 22-21-70, et seq. Under the facts presented, the board was subject to the provisions of the Alabama Sunshine Law found at Code Section 13A-14-2. Opinion 93-00051 to Attorney Oliver Kitchens cited Attorney General Opinion 81-00531 that determined that hospital boards are agencies of the counties and /or municipalities creating them, and as such, the boards are subject

to the Sunshine Law. It was concluded in Attorney General Opinion 80-00546 to Representative Thomas Reed, dated September 10, 1980, that absent statutory authority or compelling public policy to the contrary, meetings of committees of public bodies must be open to the public. Executive or secret sessions of the board or committee of a hospital association may be held only when the character or good name of an individual is involved according to Section 13A-14-2. Section 36-12-40 provides that every citizen of the State has the right to inspect and take a copy of a public record. A public writing within the meaning of this statute is such a record as is reasonably necessary to record the business and activities required to be done or carried on by a public officer, so that the status and condition of such business and activities can be known by the public. Code Section 41-13-1 defines "public records." Complete and accurate minutes must be kept of the meetings of county hospital boards. Attorney General Opinion 90-00045, dated November 16, 1989, written to Representative Richard Laird proffered that the business records of a county hospital authority are public records. Attorney General Opinion 90-00058 written to Clay County Probate Judge Douglas S. Hamlin, dated December 4, 1989, concluded that business records of a county hospital authority are public records open to the county commission. Attorney General Opinion 97-00107, dated February, 12, 1997, informed House Member Gerald O. Dial that a county hospital organized pursuant to one of the several statutes authorizing hospital associations, corporations or authorities in Title 22 of 1975 Code of Alabama is subject to Code Section 13A-14-2 and must hold an open meeting. Previously referenced Attorney General Opinion 97-00183, opined that the State open meetings law found at Code Section 13A-14-2 applies to the Board of Directors of the Dale County Hospital Association organized pursuant to Code Sections 22-21-50, et seq.

Security For Alabama Funds Enhancement (SAFE) Act

Public hospitals incorporated as public bodies (corporations) under the *Code of Alabama 1975*, 22-21-1 et seq., are subject to the provisions of the Security for Alabama Funds Enhancement (SAFE) Act. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1974,* Section 41-14A-1 through 41-14A-14. All covered public entities as defined under the Act are required to deposit their funds with banks or financial institutions that meet all the requirements of the SAFE Program and have been designated as Qualified Public Depositories (QPDs). These funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. The financial institutions (QPDs) holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged failed to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The QPD is required to provide an annual statement as of September 30th to each public depositor that summarizes their deposit account relationship and provides balances of deposits. The public depositor is required to verify the deposit account information and notify the QPD within 60 calendar days of receipt of the statement of any inaccuracies.